



June 4, 1999

Ms. Rita Costello  
 Vice President  
 Strategic Planning and New Business Development  
 CareFirst BlueCross BlueShield  
 10455 Mill Run Circle  
 Owings Mills, Maryland 21117

Dear Rita,

We are pleased to be selected to assist CareFirst in the development of its long range strategic plan. This letter describes the terms of our engagement per our discussions and correspondence to date.

#### Revised Approach

Per your April 13, 1999 letter, we will conduct three phases of work. These include:

- Phase 1: Environmental analysis and development of the strategic plan (April-June). The key deliverable is the 2000-2003 strategic vision and direction.
- Phase 2: Quantitative analysis of operational/tactical imperatives to achieve the strategy, primarily focused on technology, consumerism, and partnerships/alliances (July-September). Key deliverables are the primary enabling strategies.
- Phase 3: Board and Executive Staff support. This includes attending Board meetings, Executive Staff planning sessions, the Board Retreat, and providing support in adjustment of the plan based on major environmental changes and/or CEO/Executive Staff requests (October-December). The key deliverable is attendance at all Strategic Planning Committee meetings, the Board Retreat, and Executive planning sessions.

Key modifications from our original proposal include:

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1. The mergers and acquisitions strategy and capital strategy will not be deliverables.
2. CareFirst personnel will develop the majority of the sub-strategies including the following strategies: sales and marketing, market segment, product, pricing and underwriting, network, care management, provider, operations/Information Technology, communications, legal/regulatory, human resources, and any other necessary areas. Andersen Consulting will be responsible for developing sub-strategies in the top three areas, whichever those may be. These sub-strategies will be identified at the end of Phase 1 jointly by Andersen Consulting and CareFirst. You have preliminarily identified

7/7/99  
 file noted  
 sent copy  
 to B. Angier  
 S. Huston  
 Long Range STR + Plan  
 -ATC

June 4, 1999  
 Ms. Rita Costello

Information Technology, Consumerism, and Partnerships and Alliances as the three most likely candidates.

- An additional CareFirst staff member will be added to the team to supplement Andersen Consulting resources on the project, in order to help manage the cost of the project.

Attachment A summarizes these revisions to our proposed approach. Please note we plan for Phase 2 to end by September 1, 1999. Given the current scope for Phase 2, we believe it can be completed within this time frame. This assumes that we will not conduct any in-depth mergers and acquisitions analysis as part of the "partnerships/alliances" deliverable in Phase 2.

#### Proposed Team

As we have discussed, the Andersen Consulting team and average time commitment by phase in days per week will be as follows:

Team Member	Phase 1	Phase 2
Jim Hudak	2	1
Joe Marabito	4.5	3
Project Manager	4.5	5
Senior Consultant	5	5
Business Analyst	5	5
Experts (in aggregate)	1	1

For Phase 3, we will provide 10 days of my time, 14 days of Joe's time, and 14 days of a senior consultant's time in order to support the Board meetings, Executive Staff planning sessions, and the Board Retreat, and to support adjustments to the plan. If CareFirst directs us to spend additional time beyond this in Phase 3, we would invoice CareFirst for that time.

This team will also consist of certain CareFirst personnel including the individuals with time commitments in days per week as follows:

Team Member	Phase 1	Phase 2
Dave Wolf	1.0-2.5	1.0-2.5
Rita Costello	1.0-2.5	1.0-2.5
Maynard McAlpin	5	5
Team Member to be named	5	5
Tanya Tucker	5	5
Others (in aggregate)	as needed	as needed

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June 4, 1999  
Ms. Rita Costello

The "others" will include:

- Aliza Rothenberg and members of her staff,
- Andy Fitzsimmons and members of his staff,
- A data liaison,
- Functional liaisons, and
- A human resources and communications representative.

Of course, we will also need access to Bill Jews and the rest of Executive Staff on a timely basis as needs arise.

#### Professional Fees and Expenses

Our professional fees for this engagement will total \$1,190,000 allocated by phases as follows:

Phase	Professional Fees
Phase 1	\$723,000
Phase 2	467,000
Phase 3	0
Total	\$1,190,000

You recall that we agreed to contribute a fixed amount of our time in Phase 3 since it primarily involves attending meetings to support ongoing refinement of the plan. As we discussed, the fees represent a 20% discount from our usual billing rates. We are committing to this fee level because we see the potential for a mutually beneficial long-term relationship between our organizations and are willing to invest in that relationship.

Expenses will be billed as incurred and typically range from 10% to 15% of professional fees. These expenses would include, but not necessarily be limited to, travel and lodging expenses, meals, communications charges, purchased reports and services (e.g. investment analyst industry reports, document production services), and supplies.

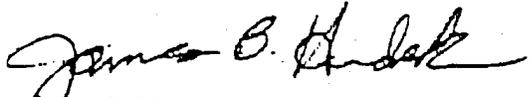
#### Terms and Conditions

The standard terms set forth on attachment B are incorporated by reference into this arrangement letter. Feel free to contact me if you have questions about any of the terms and conditions described. If you have no changes to the arrangement letter, please sign and date it in the space provided, and then mail it back to me in the enclosed envelope.

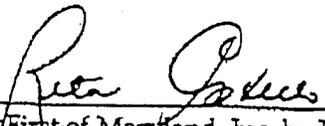
June 4, 1999  
Ms. Rita Costello

I am excited about the possibilities for this engagement to enhance CareFirst's opportunity for long term success. We look forward to working with you and the rest of the CareFirst senior management team.

Very truly yours,



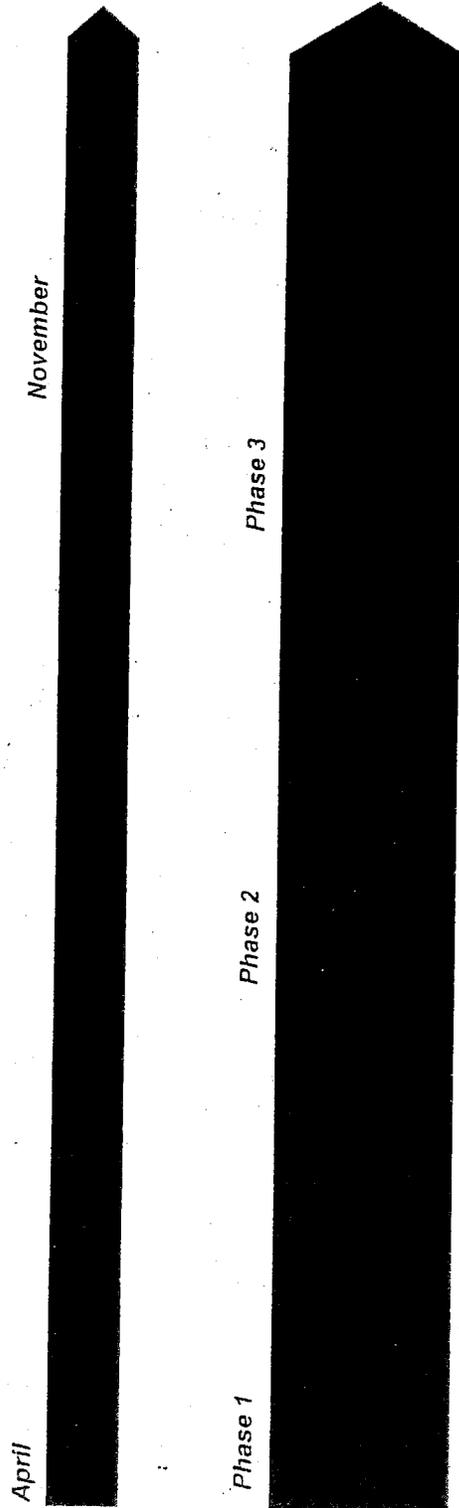
James B. Hudak  
Global Managing Partner, Health Services  
Andersen Consulting

Signature:   
CareFirst of Maryland, Inc. by Rita Costello

Date: 6/11/99

Copies to:  
Joe Marabito, Andersen Consulting

# Revised Strategy Development Approach

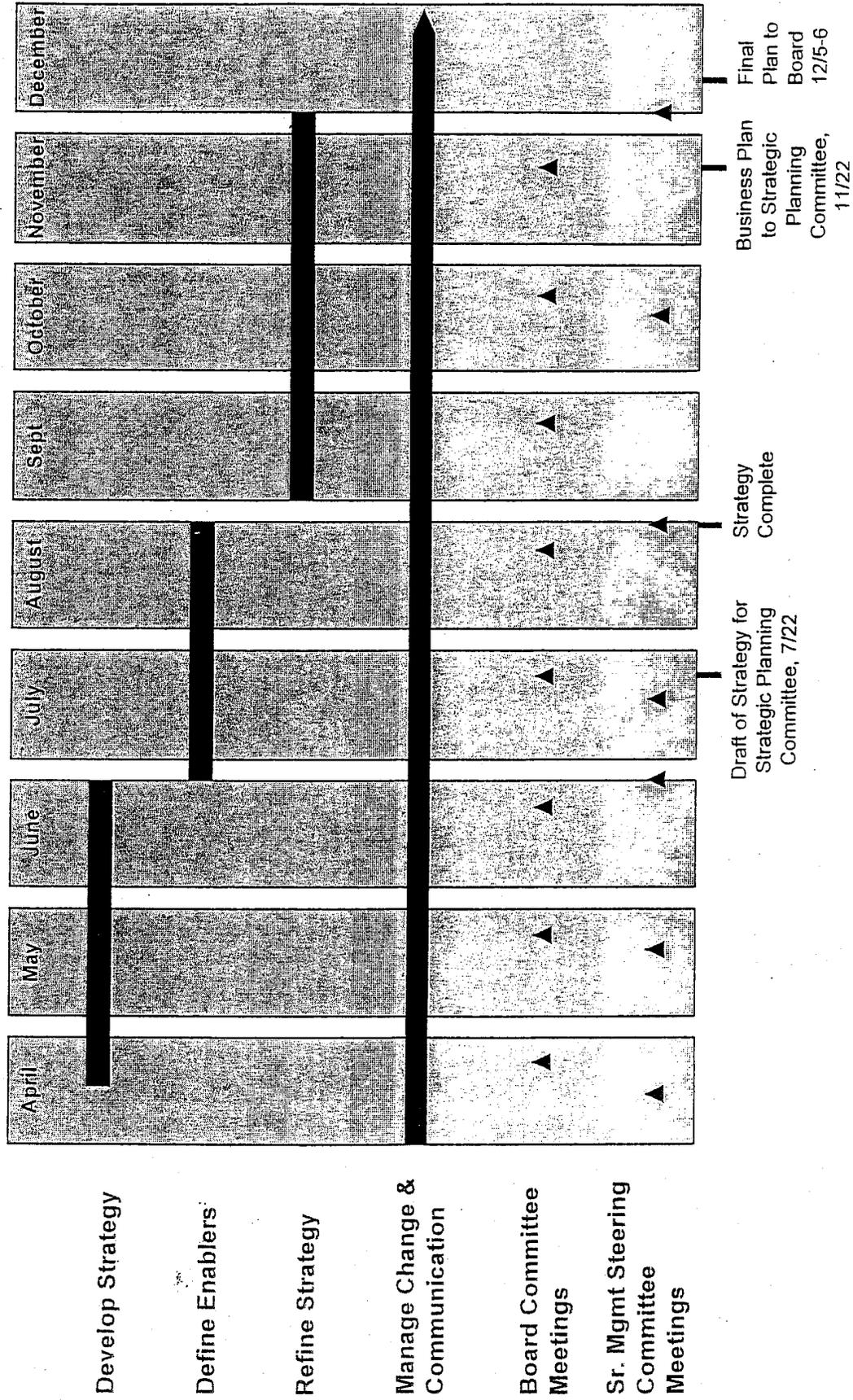


## Key

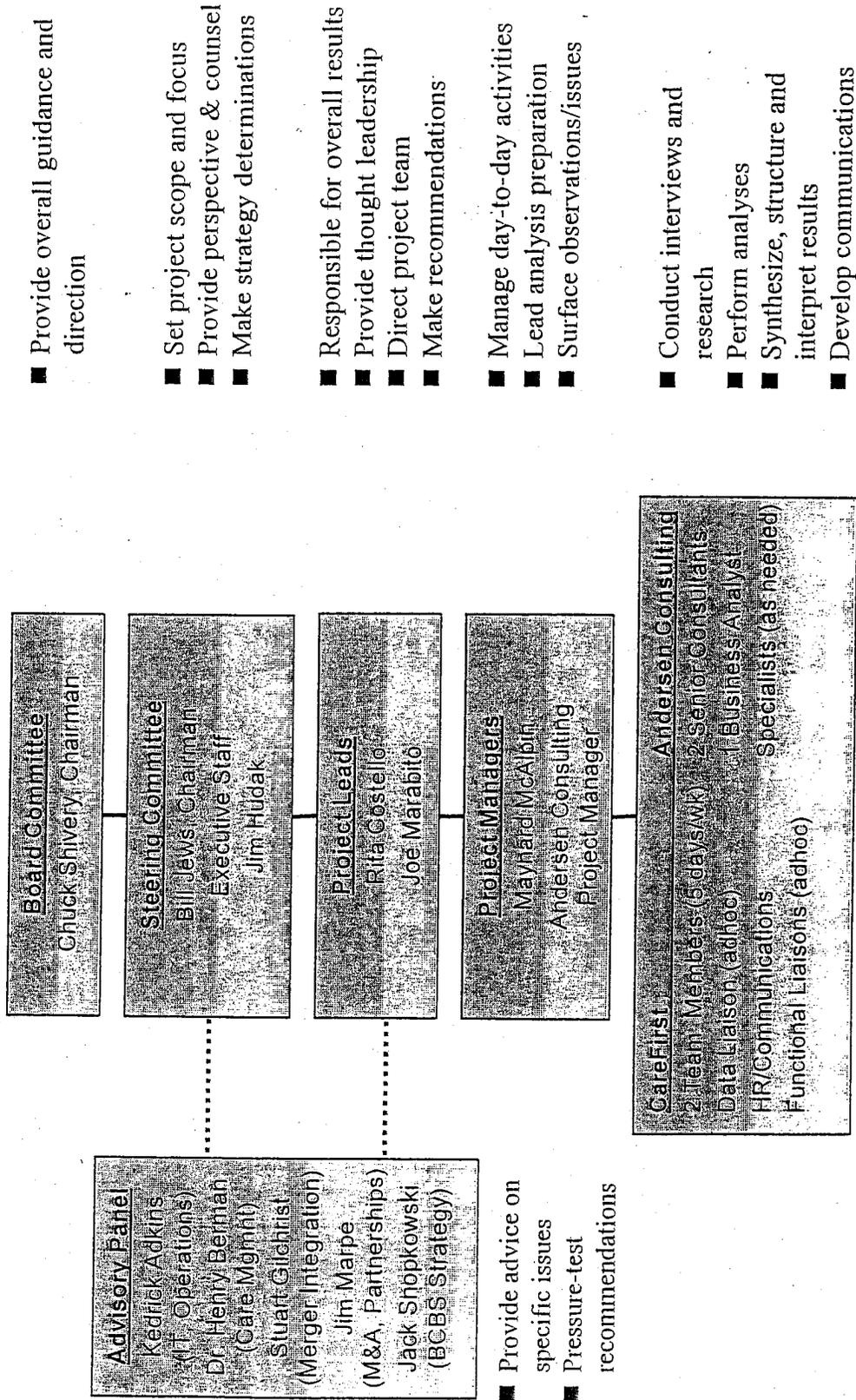
### Deliverables:

- Draft CareFirst 2000-2003 strategic direction
  - Where to compete
  - How to compete
- Enabling strategies
  - IT
  - Consumerism
  - Partnership and Alliances
- Finalized CareFirst strategic direction and plan
- Attendance at Board Committee meetings, the Board Retreat, and Executive planning sessions

# Revised Strategy Development Schedule



# Revised Strategy Development Team



- Provide overall guidance and direction

- Set project scope and focus
- Provide perspective & counsel
- Make strategy determinations

- Responsible for overall results
- Provide thought leadership
- Direct project team
- Make recommendations

- Manage day-to-day activities
- Lead analysis preparation
- Surface observations/issues

- Conduct interviews and research
- Perform analyses
- Synthesize, structure and interpret results
- Develop communications

**Advisory Panel**  
 Kedrick Adkins (IT Operations)  
 Dr. Henry Berman (Care Mgmt)  
 Stuart Gilchrist (Merger Integration)  
 Jim Marpe (M&A, Partnerships)  
 Jack Shopkowski (BCBS Strategy)

- Provide advice on specific issues
- Pressure-test recommendations

**CareFirst**  
 Andersen Consulting  
 2 Team Members (5 days/week)  
 2 Senior Consultants  
 1 Business Analyst  
 1 Specialist (as needed)  
 1 HR/Communications  
 Functional Liaisons (ad hoc)

June 4, 1999  
Ms. Rita Costello

Attachment B

Standard Terms and Conditions

General Provisions

The following basic principles govern this project:

- We will bill you on a monthly basis. Payment is due within thirty days after we submit our invoice. Should any invoice remain unpaid for more than thirty days, interest shall be paid at a rate of the lesser of 1.5% per month or the maximum amount allowed by law. Any taxes arising out of this arrangement other than those on our net income shall be your responsibility.
- In connection with the project, each of us will have access to confidential information made available by the other; each shall protect such confidential information in the same manner as it protects its own confidential information of like kind.
- You shall own the deliverables of this project, which shall not include any proprietary products or methods we may use in the course of the project. We may retain copies for our quality assurance purposes. Subject to our obligations of confidentiality, each of us shall be free to use the ideas, concepts, techniques and know-how used and developed in the project. In any event, we shall continue to be free to perform similar services for our other clients using our general knowledge, skills and experience.
- To allow us to be able to manage our participation in the project most effectively, we reserve the right to determine the personnel to perform the work although we will attempt to honor your requests for specific individuals.
- You agree that for the duration of the work described in this arrangement and for one year thereafter that you will not hire any partner or employee of Andersen who is or has been involved in the project covered by this arrangement.
- You agree not to solicit, offer work to, employ or contract with any Andersen personnel as an employee, partner or independent contractor during the term of that individual's involvement on any project for you and for a period of twelve (12) months following that

June 4, 1999  
Ms. Rita Costello

individual's participation on any project without first obtaining the written consent of the Andersen Managing Partner of that individual's assigned practice.

- Neither of us shall be liable to the other for more than the fees paid under this arrangement. Neither party will be liable for consequential, indirect or punitive damages.
- Unless we expressly assume any such responsibility in subsequent arrangements, you shall be fully responsible for your use of the results of our work, and you agree to indemnify and hold us harmless in connection with any claim relating to your use of such results and not arising out of our negligence or willful misconduct. Negligence in the present circumstances is defined to mean a gross disregard for the truth or accuracy of any recommendation we may make, reflecting the circumstances of the industry at the time of our recommendation.
- We are not considering or advising in any way on any Year 2000-related work and we are not responsible for any potential processing or other risks associated with Year 2000 errors that may result from any decision made by you in reliance on our analysis, suggestions or recommendations as may be included in the strategic plan we deliver to you, and you agree to indemnify and hold us harmless in connection with any Year 2000-related claim made against us relating to your decisions and/or use of the strategic plan we deliver to you.
- Either party may at any time and without cause terminate this arrangement by giving thirty days' written notice of termination to the other party. In the event of such termination, you will pay Andersen for all services rendered and expenses incurred by Andersen through the date of termination.
- Neither of us shall be liable for any delays or failures to perform due to causes beyond our control.